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SUBJECT: VIETNAM CONSULTATIVE GROUP MEETING

REF: HANOI 02805

1. (U) Summary: The eleventh Vietnam Consultative Group of Donors (CG) meeting took place in Hanoi December 1-3, 2003. Donors at the meeting, co-chaired by the Government of Vietnam (GVN) and the World Bank, expressed continued support to the GVN's action program for 2002-2007 and emphasized the need for balance between the pace and quality of growth. Additionally, donors raised concerns about the growing HIV/AIDS epidemic. In the opening session, five key targets were identified for the Government and donors: continued implementation of policies to reach the country's target of rapid and equitable growth; execution and roll-out of the expanded Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and its integration with the Public Investment Program and five-year plan; improving the competitiveness of enterprises and the economy; addressing social and economic challenges in relation to HIV/AIDS; and enhancing the effectiveness of development assistance and reducing transaction costs in aid delivery. Delegates emphasized the need to promote trade and integration in the global and regional economy and to reduce corruption and its potential threat to sustainable poverty reduction. They also stressed the important role of the private sector in future efforts aimed at growth and poverty reduction. In a historically candid discussion, participants raised concerns about the need for a multisectoral coordinated response to the growing HIV/AIDS epidemic and addressed gender inequity and underserved populations, including ethnic minorities.

2. (U) The U.S. delegation, co-chaired by Ambassador Burghardt and USAID Acting Regional Mission Director Leon Waskin, made pointed and well-received interventions regarding the importance of increased access to capital and land, reduction in the size of state sector, the need for greater space for private enterprise, and further commitment to the Bilateral Trade Agreement (BTA) as a means to World Trade Organization (WTO) accession. The U.S. delegation also made strong and resonating statements regarding HIV/AIDS, encouraging the government that the epidemic still can be curbed, stressing the importance of reduction in stigma and discrimination and of responding with a coordinated and multisectoral effort, and stressing the need to keep HIV/AIDS on the next CG agenda in order to monitor and discuss progress. In the final session, the USG pledged 50 million USD in assistance to Vietnam, contingent on the availability of funds. This amount reflects an increase of roughly 14 million USD over the last year's contribution. The total contribution to Vietnam in the form of grant and loan assistance totaled 2.8 billion USD for the coming year - an overall increase from last year's total of 2.5 billion USD. This development was viewed as a continued positive commitment from the donor community. End summary.

3. (U) The Consultative Group for Vietnam met under the co-chairmanship of Mr. Vo Hong Phuc, Minister of Planning and Investment, and Mr. Klaus Rohland, the World Bank's Country Director for Vietnam. Deputy Prime Minister Vu Khoan and Minister Phuc led the Vietnamese delegation. In his opening remarks, Deputy Prime Minister Vu Khoan established the overall themes of the meeting: review of social and economic achievements under the five year plan and the CPRGS, including challenges in balancing rapid growth and the quality of growth in the coming years; the economy's competitiveness and experiences with the enterprise law; the need to address the HIV/AIDS epidemic; and harmonization of ODA procedures. DPM Vu Khoan noted that relations between donors and Vietnam had evolved significantly, and that the country had recorded important achievements in the ten years since the first CG meeting was held in Paris in 1993. The DPM expressed his appreciation for the support provided by the donors in the past and stated that Vietnam was looking forward to continued cooperation and assistance in the coming years, not least in relation to further integration with

the world economy under the WTO and bilateral trade arrangements. DPM Vu Khoan also touched on the importance of striking a balance between speed and sustainability of development. He closed with a request for assistance in developing infrastructure, improving healthcare and poverty reduction, encouraging the creation of small and medium enterprises, deepening Vietnam's integration into the regional and world economy, and enhancing public administration reforms.

14. (U) H.E. Mr. Vo Hung Phuc, Minister of Planning and Investment, co-Chair of the CG meeting together with the World Bank's Country Director, Klaus Rohland, identified five key targets for the Government and donors: continued implementation of policies to reach the country's target of rapid and equitable growth; implementation and roll-out of the expanded CPRGS and its integration with the Public Investment Program and the five-year plan; improving the competitiveness of enterprises and the economy; addressing social and economic challenges in relation to HIV/AIDS; and enhancing the effectiveness of development assistance and reducing transaction costs in aid delivery.

15. (U) This year's Consultative Group meeting focused on several issues. The first day of the official meeting reviewed progress on socio-economic development during 2001-2003 and challenges to achieving the goals laid out in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). In addition, there was discussion on the competitiveness and effectiveness of Vietnamese enterprises, with a focus on ensuring a level playing field. The second day of meetings concentrated on the socio-economic challenge of HIV/AIDS, improving official development assistance (ODA) effectiveness, and the traditional announcement of ODA commitments for the following year.

Competitiveness and Sustainable Development

16. (U) MPI Phuc opened the first session with a review of the socioeconomic development of Vietnam for the years 2001-2003 and outlined the measures that the GVN would like to take, including maximizing resources from external and internal sources, addressing private sector resources, ensuring sustainable development, administrative reform, good governance, combating corruption, and using Official Development Assistance (ODA) to speed up disbursement. He noted that growth reached 7.3% this year and that the rate should be between 7.5% and 8% by 2004.

17. (U) The first discussion session, which was led by the representatives of the ADB, UNDP, Australia, and the IMF, prompted comments that fit broadly within the themes outlined by DPM Vu Khoan. Discussion topics included balancing the need for rapid and quality growth, promoting trade and integration in the global and regional economy, implementing the CPRGS, and undertaking large-scale infrastructure projects and the Public Investment Program (PIP). The delegation from Australia made a particularly pointed statement about the inadequacies of the PIP and encouraged the GVN to examine the prioritization of investments. This intervention was reiterated by the IMF delegation, using this year's World Bank report on government spending as a reference. The IMF also noted the need to increase transparency in an effort to strengthen institutions.

18. (U) The NGO delegation's representative noted the widening poverty gap and gender inequality and raised concerns regarding the inaccessibility of marginalized peoples in the Central Highlands. The NGO delegation also highlighted the need to build capacity at the local level in a more structured fashion, including input from beneficiaries. In concert with the NGO delegation, the Like-Minded Donor Group, an ad hoc grouping of nine bilateral donors (UK; Denmark; Netherlands; Finland; Canada; Norway; German; Sweden; Switzerland), stressed that the poverty rate among ethnic minority peoples has actually increased. Many delegates spoke about the need to prioritize social sector development, with particular emphasis on ensuring affordability for the poor and providing equitable access to high quality social services. They also discussed the need to invest in "human" and "social infrastructure," explaining that certain investments, such as in early childhood development, could yield very high returns.

19. (U) With regard to corruption and good governance, a number of participants noted that corruption could pose a threat to the sustainability of poverty reduction, as some types of corruption impact directly on the poor. Donors suggested including corruption as a substantive agenda item for next year's CG meeting. They also

recommended taking far-reaching steps to combat corruption as a result of a Swedish-supported diagnostic study. This report identified six areas for action on which the Government could work immediately: 1) creation of a comprehensive legal framework for anti-corruption; 2) reform of public administration; 3) introduction of transparency and accountability; 4) expansion of the media's role; 5) SOE and financial sector reform; and 6) careful review of the mechanisms for screening policy lending. In response, the GVN noted that there had been extensive debate on the proposed Ordinance on Corruption, which included the possibility of upgrading it into Law. The Ordinance also involves establishing a strengthened oversight function within the National Assembly.

¶10. (U) The U.S. Delegation, represented by Leon Waskin, noted the need for increased access to capital and land for small and medium enterprises. He also noted that while the GVN remains committed to a reduction in the number of State-owned Enterprises (SOEs), SOEs still maintain a majority hold on enterprise in Vietnam. Waskin recommended providing more space for the private sector, including in infrastructure. Waskin further suggested that the GVN should reserve 25-30 percent of infrastructure projects for private sector contractors or financiers. Finally, he hailed continued commitment to the Bilateral Trade Agreement as means of brokering WTO accession.

¶11. (U) In discussions regarding the development of the next Public Investment Program (PIP), select delegates noted the critical importance of focusing on improved efficiency of public investments. Furthermore, these investments should be based on an analysis of their contribution to growth and poverty reduction. Finally, they stressed that one should not assume that all infrastructure projects necessarily yield positive returns. The World Bank summary of this session highlighted that "weak planning, inefficient implementation, corruption, and lack of evidence-based allocations, all contribute to poor (and worsening) performance. This inefficiency diverts resources away from other high priority investments. Though large-scale infrastructure could play an important role in growth promotion, it would not necessarily do so if the wrong investments were chosen or if the projects were poorly conceived or badly-managed." The Koreans also pointed out that their own experience showed that one must incorporate environmental protection early into planning for sustainable growth, lest costs be greater in the long term. The WHO delegation reiterated concerns about poor access to quality services for marginalized communities, pointing out a growing urban-rural disparity in terms of quality and access. Suggestions included higher investment in health and education and reform for pricing and payment policies.

¶12. (U) MPI Phuc responded to these comments by noting that the GVN has a monitoring system for transaction processes. In addition, the GVN reviewed public finance mechanisms this year, including management of debt, SOEs, customs, and reserves. Though he admitted that the pace of equitization has been slow, he reaffirmed that Doi Moi, or the opening of the economy, cannot be reversed. He reiterated his desire for large-scale infrastructure to remain a strong area of focus for international and private investment, especially in disadvantaged areas. In response to numerous comments made by donors regarding the BTA, Phuc said that GVN would look to the United States for assistance in carrying the BTA forward and will not let disputes stall the process. Finally, he asserted that "prisoners of conscience" do not exist in Vietnam and, in response to statements made regarding the inordinate use of capital punishment, contended that capital sentences are delivered only for special cases.

¶13. (U) The Ministry of Planning and Investment then began a review of the integration of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) by noting that the number of households below the poverty line had decreased from 58 percent in 1993 to 29 percent in 2003, meaning that twenty million people had been lifted out of poverty. A new chapter of the CPRGS suggested by the Japanese regarding large-scale infrastructure was adopted the previous week. The GVN's goal in making this addition was to identify projects in key regions in order to cause spin-offs, because Vietnam's lagging infrastructure affects the country's competitiveness. To meet the GVN's goals in this area, MPI asserted that it must strengthen planning, diversify resources, improve maintenance, and decrease costs.

¶14. (U) A Japanese report on economic growth and infrastructure outlined the impacts that include investment inducement, regional economic activation, and social benefits. It also elaborated on the requirements

to sustain projects, including appropriate resource allocation, effective inputs to the infrastructure, and mitigation of impacts. The Like-Minded Donor Group welcomed the new chapter but pointed out that capital and recurrent expenditures must be integrated in order to ensure adequate maintenance. The NGO representative and Australia asserted that large-scale infrastructure projects are not necessarily pro-poor. Proper assessment regarding investments must be undertaken and utilization capacity must be increased. Furthermore, Australia pointed out the necessity of undertaking other reforms, because building bridges to take people to markets will not matter if these markets are constrained.

Enterprises - Competitiveness and Effectiveness in the Vietnamese Economy

¶15. (U) The second session of the meeting focused on the Vietnamese economy's effectiveness and competitiveness with respect to the laws on enterprises, SOEs, and competition. This session also reviewed the outcome of the Business Forum session conducted the previous day. Dr. Tran Xuan Lich, Vice President of the Central Institute for Economic Management, presented the GVN's experience with the Enterprise Law over the past four years as a key component of the move towards a market economy. Lich noted that achievements include a vast improvement in business freedom, which is reflected in strong output growth and the performance of the export sector. He emphasized that the business environment has also benefited from the Enterprise Law's spillover effect into more general areas, including legal reform and institutional development. Lich thanked donors for their support in drafting the law and translating it into reality. According to Lich, the law's major weakness is the limitation of its primary impact to urban areas, with barriers to entry remaining high in rural areas. Lich also admitted that there remains a great extent for improvement of administrative procedures and coordination among agencies related to the implementation of the law. Lich mentioned that the GVN would place greater emphasis on building awareness about the importance of individual entrepreneurship in the process of economic development.

¶16. (U) Led by the Like-Minded Donor Group and supported by France, UNDP, and China, donors emphasized the importance of the private sector in future efforts for growth and poverty reduction. A summary of discussions at the Vietnam Business Forum (VBF), where this issue was more fully discussed, especially highlighted the constructive and frank nature of the exchange between the Government and private sector representatives. Delegates welcomed the efforts aimed at strengthening Vietnam's competitiveness in the context of preparations for WTO accession. UNDP noted that following leadership was identified as a key factor for success in a nine-province review of private sector development. UNDP further highlighted the importance of the media. The ADB and IMF representatives commented on the continuing difficulty faced by private enterprises in licensing and high production and transaction costs. The Chinese stressed the importance of creating favorable conditions for small and medium-sized enterprise (SME) development, offering to assist given their experience in Vietnam and the region. Some delegates noted the contrast between the increasing importance of SMEs in fuelling growth and poverty reduction with the fact that this sector remains largely informal, in part due to "over-regulation".

¶17. (U) In response, the Vice Minister of Finance explained that VAT reforms will reduce the overall rates criticized by donors and that the National Assembly will develop a new law on personal income tax. Additionally, import tariffs will be reformed in accordance with the BTA and an agreement with the EU. To enhance understanding of these new laws, the GVN stated it would introduce a tax counseling system in major cities. The Vice Minister also announced the GVN's intention to separate policy making from tax supervision. Following final comments by the delegations from Japan, IFC, and Germany, Minister Phuc noted that the GVN plans to revise decrees on the private sector, including amending the Enterprise Law, Foreign Investment Law, and Domestic Investment Promotion Law. He closed the session by saying that registration and licensing would be reformed in order to treat foreign investors more favorably.

HIV/AIDS - A Social and Economic Challenge

¶18. (U) Although this session was not the first time that HIV was discussed in a CG Meeting, it was the first time that it was included officially on the agenda. The donor-led discussion for this session was remarkably candid and concerted - a stark contrast to the relatively

uncoordinated response delivered by Professor Le Ngoc Trong, Vice Minister of Health. The session opened with a Ministry of Health presentation on the draft National Strategy on HIV/AIDS developed during the final quarter of 2003. The principal objective is to maintain an HIV prevalence rate of 0.3 percent or lower through the year 2010 and to alleviate the socioeconomic impact of HIV on the population. Trong noted that the specific objectives of the strategy include multisectoral collaboration on prevention by targeting 100 percent of ministries and provinces, control of transmission among high-risk groups through condom social marketing and safe injections among drug users, care and treatment for 90 percent of HIV+ adults and 100 percent of positive children, anti-retroviral medicine for 70 percent of all HIV positive people, improved surveillance, and improved blood screening. Trong also pledged that the overall investment in HIV/AIDS would increase by 50 percent for 2004.

19. (U) Following the GVN strategy presentation, UNAIDS presented a summary statement and recommendations of the Community of Concerned Partners, an ad hoc consortium of international and local partners working in HIV/AIDS and chaired by the UNDP Resident Representative. UNAIDS outlined lessons learned from the Thai experience and outlined four key steps for successful prevention, mitigation and support measures including: 1) strong political will and involvement, 2) a coordinated multisectoral response with inclusion of all relevant government offices, 3) inclusion of people living with AIDS in the policy and human rights-based dialogue, and 4) strong anti-stigma and anti-discrimination efforts to allow for greater support and open communication.

20. (U) The subsequent discussion was marked by candid and resolute remarks by numerous delegations, many of whom raised shared concerns. Overwhelmingly, donors indicated the availability of ample funding for effective prevention and mitigation programs. The LMDG noted the increased economic burden of HIV and the need for an aggressive multisectoral government, private sector, and population-based response. Like many delegates, the LMDG touched on the steps necessary to mitigate the epidemic effectively, including the destigmatization of HIV, strong prevention messages, condom social marketing, accessible voluntary testing and counseling services, HIV education in the school curriculum, good services for the care and support of people living with HIV/AIDS, and the involvement of people living with HIV/AIDS in policy and program decision processes. Regarding these steps, multiple delegates stressed the importance of a coordinated, multisectoral response in light of the government's recent dismantling of its national coordinating body in an effort to centralize the response within the Ministry of Health. They also repeatedly stressed the importance of increasing efforts to reduce stigma and discrimination of people living with HIV/AIDS. IMF's personal remarks brought the focus to the human level in a way rarely seen at such gatherings. This effectively galvanized the donors and illustrated to the GVN the need to continue to address this issue more openly.

21. (U) The U.S., represented by Leon Waskin, made a resounding statement, which was backed by the World Bank, France, and New Zealand. Waskin congratulated the GVN for including HIV on the agenda for this year's CG meeting and referred to the fact that HIV is one of the top priorities on Secretary Powell's foreign policy program. He aligned the U.S. with the LMDG recommendations, noting that the GVN is still capable of curbing the epidemic with strong political will and commitment. Waskin then encouraged the GVN and other donors to consider including HIV/AIDS prevention, care, and support in all development programs. He identified four major focal areas necessary for an effective response, including a super-ministerial and multisectoral coordinating body, strong political leadership at all levels, effective efforts to reduce stigma and discrimination for people living with HIV/AIDS, and involvement of HIV positive people in policy and program decision making. Waskin then recommended that members of the CG should maintain HIV/AIDS on the agenda in the ensuing years and monitor progress. The statement was well-received by the GVN, after which Minister Phuc thanked the United States for its estimated commitment of 8 million USD for HIV/AIDS programs for the year 2004 and Waskin for his recommendation that HIV be a part of subsequent meetings.

22. (U) Other delegations, including Canada, Australia, Great Britain, and France, stressed concerns regarding the cumbersome and lengthy disbursement process for HIV-funded programs. The NGO representative noted the need to increase the focus on youth, because they are at the center of the growing epidemic - a comment also made in the UNAIDS presentation in which youth were identified as

representing almost two-thirds of all new cases. Both the European Commission and the ADB hailed the GVN for its coordinated response to SARS and encouraged the GVN to mobilize parallel efforts across sectors to respond to the HIV/AIDS epidemic.

123. (U) In response, Vice Minister Trong of the Ministry of Health gave a rather unprepared and relatively inadequate response to the concerns raised by the delegates. Trong highlighted a few new GVN efforts to boost care and support for people living with HIV/AIDS and limitations in coordinating all donor support. The GVN has not yet implemented its National HIV Strategy and will look to do so beginning next year. Minister Phuc noted the need to revise the 1995 Ordinance for HIV and the increased involvement of higher-level leaders.

ODA Effectiveness and Reducing Transaction Costs

124. (U) The fourth session focused on improving ODA effectiveness and reducing transaction costs. The Government presented the details of its "Action Plan on Simplification and Harmonization of ODA Procedures" as well as its comprehensive capacity building plan for effective official development assistance (ODA) management. The GVN announced the upgrading of Decree 17 on ODA management to an ordinance. It noted a number of weaknesses in ODA effectiveness, including the absence of an ODA master plan, inconsistencies among some government regulations on various ODA-related aspects, limited capacity among project management units, and complex internal GVN decision-making procedures, in addition to complex and vague procedures vis--vis some donors.

125. (U) Generally, delegates welcomed the GVN's capacity-building plan and ownership of a harmonization action plan as a follow up to the DAC/OECD conference in Rome. Many also presented their own plans for simplification and harmonization of procedures. Some urged the GVN to use the "Harmonization Action Plan" as a framework for donor-donor, donor-government and intra-government action and to develop a joint Government-Donor forum. They suggested that guidelines provided by the DAC/OECD good practice paper could be used to improve harmonization across various stages of the project cycle.

126. (U) In addition, some delegates urged the GVN to continue to develop and improve the GVN's own core systems, including public financial management and procurement systems, and encourage donors to support these efforts. Others stressed the need to maintain a diversity of aid instruments, suggesting that aid modalities should not be mixed up with aid effectiveness. One donor requested that the GVN more clearly elaborate its selection criteria in the PIP, as well as the relationship between capital and recurrent costs. Many agreed that the diversity of views on aid instruments should not distract donor attention from the need to look for common ground on harmonization and focus on practical issues.

127. (U) The NGO representative stressed that the GVN should focus on areas with higher poverty rates and consider marginalized communities, such as those living with HIV/AIDS, trafficking victims, and women and children. The delegation noted that infrastructure alone will not bring about change - it must be balanced with supportive policies that encourage capacity building at the grassroots level. The UNDP noted the sensibility of a pooled funding mechanism, because it reduces transaction costs. The delegation also noted that ODA effectiveness depends on the quality of investments and their level of efficiency. Some noted that the quality of ODA use depends on the quality of public expenditures. Donors pointed to a strong role for public administration reform at all levels of government in improving aid effectiveness. In this regard, the importance of distinguishing between administrative efficiency and allocative efficiency was observed.

128. (U) Delegates agreed on the need to proceed quickly with the design of the "Comprehensive Capacity Building Program" with a view to finalizing this program by the time of the mid-term CG in June 2004 at the latest. This project would support improvements in the overall framework for ODA management, enhance the GVN's capacity to manage ODA project instruments, and explore non-project aid modalities. The GVN stressed that the capacity-building initiative should cover the local levels, not being limited to the central level. A number of donors offered to help with capacity building at the local level and emphasized the importance of greater coordination and participation at this level regarding ODA utilization and management. The GVN also noted the need to build awareness about new aid instruments,

coordinate national execution of ODA, and provide technical assistance in improving effectiveness and management.

129. (U) Donors collectively pledged 2.8 billion USD in assistance, exceeding the prior year's pledge level by three hundred million dollars (i.e. an increase of 12 percent from the previous year). Waskin indicated the USG's intention to provide 50 million USD in assistance to Vietnam, subject to Congressional approval and availability of funds. In support of Embassy MPP goals, this assistance will be comprised of technical training and support in numerous faculties including health, trade, and the environment, as well as humanitarian assistance, disaster relief, education, and food assistance. USG agencies involved include USAID, the Centers for Disease Control, the Department of Labor, the Department of Defense, the Department of Agriculture, and the Ambassador's Emergency Response Funding Mechanism.

130. (U) Comment: This year's CG was characterized by continued positive support for the GVN's progress in developing plans and strategies to increase development and combat poverty, with simultaneous concern over the need for faster reforms in the banking and SOE sectors. Delegates noted a need for more efficient transactions and harmonization in ODA disbursement and utilization. Comments by the U.S. were well received and supported. Following the final session, the World Bank co-chairman requested that Waskin report to the Prime Minister in the Heads of Delegation and Ambassadors session following the CG on concerns raised regarding HIV. Waskin accepted and delegated a part of his report to the UNAIDS coordinator in a joint collaborative effort. Their presentation was well received, with the Prime Minister affirming his support and expressing a commitment to the effort.
BURGHARDT